

LOUISIANA DEPARTMENT OF INSURANCE



# ***Consumer's Guide to***

# **Homeowners Insurance**



J. Robert Wooley, Commissioner of Insurance



## **A message from Commissioner of Insurance Robert Wooley**

Chances are your home is the single most expensive item you will ever purchase, and your most valuable investment. Every year insurance companies pay more than \$75 billion in claims resulting from losses suffered due to fires, hurricanes, robberies, dog bites and other incidents. The trauma of damage to your property is stressful enough without having to wonder if your homeowners insurance will cover the claim. So, whatever your insurance needs, you should look for a company that is financially sound, has a history of providing good service and charges a fair rate.

This guide outlines the types of coverage and explains terms and ideas you should know in order to find the insurance provider and type of policy that is right for you. The information contained in this guide should be of use to you whether you own or rent your residence.

The amount of compensation offered for a claim can vary depending on the adjuster's analysis. However, if you feel the amount offered is too low, we may be able to help you reach a fair settlement. Feel free to call us here at the Louisiana Department of Insurance at 1-800-259-5300.

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## Types of Homeowners Insurance

Homeowners Insurance is a “package” policy that covers both property and liability claims. Property claims are made when loss or damage occurs to your home or personal possessions. This coverage extends to possessions that you carry for personal use when you travel. Liability claims arise when someone else suffers an injury or damage to their property because of something you did or did not do. Liability claims may result in a lawsuit against you.

There are six basic types of homeowners coverage that are designed to provide varying amounts of protection. Different insurance companies may give them different titles, but they are basically the same.

### **THE BASIC FORM**

The Basic Form protects your home and personal property such as furniture, carpeting and personal belongings. The policy covers damage due to fire or lightning, removal of property endangered by peril, windstorm or hail, vandalism or malicious mischief, theft, damage from vehicles and aircraft, explosion, riot or civil commotion, glass breakage and comprehensive liability.

### **THE BROAD FORM**

Along with benefits provided by the Basic Form, the Broad Form insures your home and personal property against building collapse, freezing of or accidental discharge of water or steam from within plumbing, heating/air conditioning systems, domestic appliances, falling objects, weight of ice, snow or sleet and rupture or bursting of hot water heating systems. It also provides comprehensive personal liability coverage.

### **THE SPECIAL FORM**

The Special Form covers your home against “all risks” except for certain specified exclusions, such as earthquake and flood. This policy covers other structures (such as a garage) and all perils covered in the Broad Form, damage to or loss of personal property and comprehensive liability.

**THE TENANTS BROAD FORM**

The Tenants Policy is a Broad Form policy that supplies coverage for personal property only. This policy provides no coverage for the dwelling.

**THE COMPREHENSIVE FORM**

The Comprehensive Form insures a dwelling and personal property against all risks except certain specified perils such as earthquake and flood. This is often the most expensive homeowners policy because it covers so many potential losses.

**SPECIAL CONDOMINIUM FORM**

Special Condominium coverage is designed for condominium unit owners and is not presently offered by all insurance companies. It provides the basic coverage offered in the Tenants Form and provides special protection needed by owners of condominium units. It insures only the interior of the dwelling, not the structure itself.

When deciding which form is right for you, be aware that there are some properties and perils that are excluded from most homeowners policies. Animals, birds, fish, automobiles and business property that are away from the cov-



ered premises are not covered by most homeowners policies. Loss and damage caused by flood, surface water, water that backs up through sewers or drains, earth movement, nuclear damage and war are not covered.

Personal liability and medical payments do not apply to operation or ownership of any aircraft, automobile, recreational motor vehicle, water craft powered by more than a 50-horsepower motor, bodily injury or physical damage caused by an intentional act of the insured.

**C**heck with your agent to find out if there is a **hurricane deductible** written into your policy. There is a trend among insurance companies in Louisiana to apply a hurricane deductible to homeowners policies due to the frequency of storms in our state. For example, a two percent hurricane deductible would require you to pay up to two percent of the insured value of your home instead of the usual deductible you pay when you have other types of losses. In most cases, however, you can “buy back” the hurricane deductible by paying a higher premium. When considering the purchase of a policy, keep in mind that most companies restrict the sale of insurance once a hurricane or tropical storm is approaching.

## Other Important Insurance

### FLOOD INSURANCE

Because homeowners policies in Louisiana do not provide coverage for damage due to floods, it is important to look into getting a separate flood insurance policy, no matter where you live. Ask your agent if your insurance provider offers flood insurance policies, or contact the National Flood Insurance Program (NFIP) at 1-888-CALL FLOOD, ext. 314.

But don't wait until a storm is coming to purchase flood insurance. It takes 30 days after purchase for a flood insurance policy to go into effect.

If you have any questions about which companies in your area offer flood insurance, contact the Louisiana Department of Insurance at 1-800-259-5300 or the Louisiana Department of Transportation and Development, Office of Public Works, Floodplain Management Section, P.O. Box 94245, Baton Rouge, Louisiana 70804, (225) 379-1432.



**FAIR/COASTAL PLANS**

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The Coastal Plan was established by state statute to assure the availability of essential property insurance to property owners unable to secure insurance in the voluntary insurance market along the coast. The FAIR Plan does the same for areas that are not designated as coastal in the Coastal Plan.

Some homeowners policies, especially for property along the coast, exclude coverage for wind and hail damage. Purchasing insurance through either the Fair Access to Insurance Requirements (FAIR) or Coastal Plans can help protect your property in case of a severe storm. They offer various coverages such as fire insurance (including damage caused by lightning) and coverages for damage due to hail, wind, aircraft vehicles, smoke and explosions.



Property owners who keep their property maintained within reasonable standards may apply for the FAIR/Coastal Plans. A licensed agent can help you fill out the application after trying unsuccessfully to secure coverage for you on the open market. If your application is accepted, a one-year policy is issued.

**FLOATERS**

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Most policies limit the amount of reimbursement of valuable items, such as jewelry, furs, silverware, guns, antiques and computer equipment. If you have some particularly valuable items in these categories, you may need to purchase additional coverage called a “floater.” This type of policy covers each item individually and is usually inexpensive. Contact your insurance company or agent for more information.



## **RENTERS INSURANCE**

Many renters do not consider their insurance needs because they believe only “homeowners” need insurance. However, renters need protection for their personal possessions and from liability.

### **Some truths to remember about renters insurance:**

- Your personal belongings are not protected by the landlord’s insurance. Property owners insurance covers the actual building and any contents belonging to the landlord, but seldom covers the tenant’s possessions. Clarify this with your landlord before signing a lease.
- Renters insurance is not very expensive. Some renters fail to insure their personal possessions because they believe insurance is too expensive, but in fact, renters insurance is typically available for as little as \$100 a year.
- Your landlord may not be liable if someone is injured within your rented residence. You should check your renter’s agreement to see if you will be held liable for injury or property damage that occurs in your residence; if so you should consider getting renters insurance.
- Renters policies normally pay only the actual cash value of your losses, but replacement coverage is available.
- Although it is best if all roommates are on the same policy, it is possible for each to purchase his or her own coverage. If you do decide to get insurance alone, remember, only you will receive the security of coverage.

## **BUSINESS PROPERTY INSURANCE**

If you operate a business out of your home, you should consider purchasing a separate business insurance policy. Purchasing a business insurance policy will protect your business property and your personal liability if someone is injured in your home due to business activities.

For example, if you do not have business property insurance and your house is burglarized, your homeowners policy will only pay a limited amount for the replacement of your business property. Also, if someone is injured as a result of your business activity, you could be held liable to pay their medical bills and make restitution if you are sued.



**PERSONAL LIABILITY COVERAGE**

A personal liability, or umbrella, policy pays liability limits above those you can get on your homeowners or other basic liability policy.

If you are thinking of buying a personal liability policy, begin by finding out the maximum amount of personal liability your homeowners policy provides. Make sure you coordinate the liability limits so that the umbrella policy covers any liability claim in excess of the amount your basic policy will pay, up to the maximum limits of the policy.

**After the Policy is Purchased**

**TAKING INVENTORY OF YOUR HOME**

After you have purchased your homeowners policy, you need to keep a copy in a fire proof/water tight box or in a safe place away from home, such as a safety deposit box. It is also important to make a list of the possessions covered under your policy. It is much easier to do an inventory of your home now, rather than having to sit down after a loss and try to remember a lifetime worth of purchases. Make sure to write down any valuable items and their serial numbers along with the method of acquisition (purchased, inherited or received as a gift), date purchased and price or approximate value. This list should include furniture, appliances, carpeting, jewelry, artwork, toys and the contents of your closets, cabinets and drawers. Attach receipts if possible.

It is also a good idea to take photographs or videos of the outside of your home, as well as the property contained inside. Include in your video a verbal description of major assets, including their value. Keep your list and photos or videos in a secure place with your policy.

**FILING A CLAIM**

When you call your insurance company or agent about your claim, keep a record of the conversation, including the person’s name and the date and time of the call. The company will then submit a loss form and an adjuster will be assigned to your claim. If you are unable to stay in your home, let your insurance company or agent know where you can be reached.

In most cases, you can make temporary repairs to prevent further damage to your property from the elements and looting. This would include boarding up windows and placing plastic over the roof if it is leaking. If you make temporary repairs, keep a list of all repairs done and save receipts for all materials used. Do not sign any deals with contractors or lawyers until you have spoken with your insurance company or agent.



**WORKING WITH THE ADJUSTER**

The adjuster should call you as soon as possible to make arrangements to inspect your property. Be present when the adjuster comes, and ask for identification. Unscrupulous repairmen may try to take advantage of someone suffering from a loss, especially after a storm. Have your insurance policy, your list of possessions and any photos or video ready when the adjuster arrives. This will make the adjuster's job easier and help settle your claim sooner.

The adjuster will then make a repair estimate of the damage to your home and property. If you cannot come to an agreement with the adjuster over what needs to be repaired or replaced, do not accept an unfair settlement. Call your insurance company or contact us here at the Department of Insurance at 1-800-259-5300.



**FIGURING OUT THE COSTS**

The settlement amount the insurance company offers, of course, differs with each situation. However, it helps to know the two basic ways to value your property.

- **Actual Cash Value** - the replacement cost of the item minus depreciation. For example, if a new television set costs \$500 and your 7-year-old television set is damaged in a fire, you may end up receiving only \$250 because of depreciation of your television's value over time.

- **Replacement Coverage** - the cost of replacing an item without deducting for depreciation. For example, if the current cost of a television similar to the one you bought seven years ago is \$500, you will receive the full \$500. Most policies require you to actually replace the item in order to receive reimbursement.

**Y**ou may want to check your policy to see which kind of coverage you currently have. If you have actual cash value and would prefer replacement coverage, it may be added to your policy for an increase in your premium of about 10 to 15 percent.

#### **CANCELLATION BY THE COMPANY**

After you have received your policy you should read your cancellation provisions, as they may be more complicated than you think. It is important to understand when and how the company can or cannot cancel or refuse to renew your policy.

First of all, if your insurance company decides it wants to cancel or not renew your policy, you have the right to know why. If you make a written request for the reason of cancellation, the company must respond within six months and specify in writing the reason for the cancellation or refusal to renew.

Your insurance company cannot cancel, refuse to issue, fail to renew or increase the deductible of your homeowners policy if it has been in effect and renewed for more than three years, unless certain conditions apply. Such conditions include: nonpayment of premium, insurance fraud committed by the insured, a material change in the insured risk, two or more claims within a period of three years, or if the continuation of your policy endangers the solvency (financial stability) of the company.

You should also be aware that your insurance company cannot cancel, refuse to renew or increase the amount of the premium on your homeowners policy based solely on a loss caused by an “Act of God.” An “Act of God” is defined as an incident due directly to natural causes and exclusively without human intervention. However, the company may make such changes to your policy due to an “Act of God” if they make the changes on an area-wide rating basis at the beginning of a new policy period.

## Shopping Tips:

When shopping for homeowners insurance, keep these basic tips in mind:

- **Don't take risks with your new home.** You should use the same care in shopping for your homeowners insurance as you did when shopping for your home. After a storm, fire or other calamity, the last thing you want to hear is that your insurance company is not financially stable enough to cover your claim or that you don't have the proper coverage in the right amounts.
- **Shop till you drop.** Don't just buy the cheapest policy you can find. There are other factors you should weigh, such as the credibility of the company.
- **Remember deductibles.** Homeowners policies in Louisiana carry a basic deductible ranging from \$250 to \$500 depending upon the carrier. Keep in mind that a higher deductible means higher out-of-pocket expense in the event of a loss.
- **Buy only what you need.** Your company or agent may suggest a higher policy limit than is actually necessary to cover your needs. The fact is, the amount of insurance on your home should not exceed the cost of replacement if it is totally destroyed. You need to insure your house for at least 80 percent of its replacement value.
- **Burglar proof.** You may qualify for premium discounts if you install antitheft devices such as burglar alarms, deadbolt locks and secondary locking devices. Ask your agent for more specific information.
- **Compare them all.** Be sure to compare similar policies to learn which is the most reasonable. Remember, there are several different types of homeowners policies available.
- **Keep in mind company underwriting.** Companies have certain underwriting characteristics they use to determine eligibility. Some will look at such things as: the condition of the home, whether or not there is a pool, and the kinds of pets you have.



## Tips on Loss Prevention

There are steps you can take to help prevent loss and keep your rates as low as possible:

- Install smoke and heat detectors near sleeping areas.
- Keep your house free of trash piles, oily rags and combustible materials.
- Check lamps, cords and light switches to make sure there is no faulty wiring.
- Practice fire drills at home, and make sure all family members (especially children) know what to do in case of a fire.
- Keep matches and lighters away from children.
- Do not smoke in bed.
- Install adequate locks on the doors and windows of your home.
- When away from home, suspend delivery on your mail and newspapers or ask a friend or neighbor to collect them for you daily.

## Complaints

If you believe an insurance company has improperly refused to issue or renew your policy, or refused to pay all or part of your claim, you should ask questions first and then complain if necessary.

Your first step should be to contact your agent or company representative. Many times a mistake has been made and will be corrected when you call. When contacting your insurance company or agent, be prepared to give your name, address, telephone number, policy number, type of policy and nature of your complaint.

If you do not receive a satisfactory response from your company or agent, you may seek help from the Louisiana Department of Insurance by calling us toll free at **1-800-259-5300**.



## INSURANCE SHOPPING WORKSHEET

Use this worksheet to record information an agent or company will need in order to give you an accurate premium quotation. Remember, the company is obligated by law to provide you with the reason for the rate you are given upon request.

1. **REPLACEMENT COST OF YOUR HOUSE** \$ \_\_\_\_\_  
(Does not include the value of the land,  
foundation, landscaping, septic system or water well.)
2. **REPLACEMENT COST OF YOUR HOUSEHOLD CONTENTS** \$ \_\_\_\_\_
3. **SQUARE FOOTAGE OF YOUR HOUSE** \_\_\_\_\_
4. **POLICY FORM THAT YOU WANT** \_\_\_\_\_  
(See pages 2-3 for descriptions.)
5. **DEDUCTIBLE** \$ \_\_\_\_\_  
(\$250 or 1% replacement cost of your house.)

## DISCOUNT CHECKLIST

Check the discounts for which you might be eligible.

### MANDATORY DISCOUNTS FOR HOMES MEETING ELIGIBILITY STANDARDS:

- ☐ Electronic burglar alarm system
- ☐ Burglar-proofing - deadbolt locks, secondary locking devices, etc.

### FIRE AND SMOKE ALARM SYSTEMS AND BURGLAR ALARM SYSTEMS THAT DO NOT QUALIFY FOR THE MANDATORY DISCOUNT:

- ☐ Central station
- ☐ Remote alarm
- ☐ Local alarm

### OTHER DISCOUNTS:

- ☐ Combination fire, smoke and burglar alarm systems
- ☐ Automatic sprinkler systems
- ☐ Fire extinguishers
- ☐ Building features:
  - Age of the house
  - Noncombustible roof
- ☐ Care & condition of premises
- ☐ Loss experience for three consecutive years
- ☐ Companion policy in same company or group
- ☐ House insured to full replacement value
- ☐ Senior citizens discount

## Insurance Company Comparison Chart

Use this chart to record the prices quoted by each company  
or agent you contact.

NAME OF COMPANY: \_\_\_\_\_  
Annual Premium     \$ \_\_\_\_\_  
Discounts Offered     \_\_\_\_\_

NAME OF COMPANY: \_\_\_\_\_  
Annual Premium     \$ \_\_\_\_\_  
Discounts Offered     \_\_\_\_\_

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